

Message Text

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SUBJ: VENEZUELA'S PETROCHEMICAL INDUSTRY: RECENT DEVELOPMENTS

BEGIN SUMMARY. RECENT EVENTS HAVE CREATED UNCERTAINTY OVER THE FORM AND DIRECTION OF VENEZUELA'S PETROCHEMICAL DEVELOPMENT. A PRIVATE GROUP PROPOSED, BUT WITHIN TWO MONTHS WITHDREW, PLANS FOR RESTRUCTURING THE INDUSTRY. A NATIONAL PETROCHEMICAL COUNCIL HAS BEEN CREATED TO BRING ORDER TO THE STATE-OWNED PETROCHEMICAL ENTERPRISE. PRESIDENT PEREZ HAS REITERATED GUIDELINES FOR INDUSTRY'S EXPLOITATION. END SUMMARY.

1. A SHORT-LIVED ALTERNATIVE TO STATE-MANAGED PETRO-CHEMICAL INDUSTRY WAS RECENTLY PUT FORWARD BY PETROCOMPLEJO PETROQUIMICA DE ORIENTE S.A., PENTACOM. PENTACOM INCORPORATED ON 5 FEBRUARY 1975 WITH BS. 2 MILLION, OR 20 PER CENT, OF ITS CAPITAL PAID IN BY 18 WEALTHY VENEZUELAN. ON MAY 2 THE COMPANY WITHDREW THE PROPOSAL EXPLAINING THAT THE ENFLAMED POLITICAL ATMOSPHERE WAS NOT CONDUCTIVE TO CALM AND RATIONAL ANALYSIS OF PROJECT. PROPOSAL WAS FIRST REVEALED ON 13 MARCH WHEN IT WAS DELIVERED TO THE DIRECTOR OF THE STATE ENTERPRISE, INSTITUTO VENEZOLANO DE PETROQUIMICA, IVP. REPORTS PROLIFERATED THAT PENTACOM'S PRINCIPALS HAD RECEIVED ENCOURAGEMENT FROM PROMINENT

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ADMINISTRATION FIGURES INCLUDING PRESIDENT PEREZ. IVP'S

DIRECTOR MONTANA MADRIZ TOOK STRONG EXCEPTION TO CERTAIN ASPECTS SUCH AS PENTACOM'S ADVOCACY OF GREATER ROLE FOR PRIVATE INVESTORS. POLITICIANS OF VARIOUS PERSUASIONS SWARMED OVER PROPOSAL CONDEMNING IT FOR ABANDONING GOVERNMENT'S PREVIOUS COMMITMENT TO CONTROL THE INDUSTRY. HOWEVER, COMMENTING ON PENTACOM'S DEMISE, MINES MINISTER HERNANDEZ, WHOSE MINISTRY NOMINALLY OVERSEES IVP, STATED THE PROJECT WITHDRAWAL SHOULD NOT BE INTERPRETED AS REJECTION OF PRIVATE PARTICIPATION IN PETROCHEMICAL INDUSTRY. OTHERS ALSO HAVE PREDICTED A RESURRECTION OF EFFORTS BY PRIVATE SECTOR TO CARVE OUT A SHARE OF POTENTIALLY LUCRATIVE BUSINESS WHEN PENTACOM'S DUST HAS SETTLED.

2. ON ANOTHER FRONT, MR. MONTANA MADRIZ TOLD THE FEDECAMERAS CONVENTION THAT A HOLDING COMPANY WILL BE CREATED TO REPLACE IVP BEFORE END OF 1975. EXECUTIVE SECRETARY OF NATIONAL PETROCHEMICAL COUNCIL, DR. ALFREDO RIVIERE, CONFIRMS SUCH A PLAN. HE INFORMED EMBOFF THAT PARTICULARS HAVE NOT RECEIVED COUNCIL'S FINAL APPROVAL BUT INTENTION IS TO RESTRUCTURE IVP AS A HOLDING COMPANY COMPOSED OF 100 PERCENT OWNED SUBSIDIARIES AS WELL AS JOINT VENTURES. WHILE NOT UNLIKE PRESENT CONCEPT, REORGANIZATION OF LINES OF RESPONSIBILITY AND COMPLETE SHAKE UP OF PERSONNEL WOULD PUT COMPANY ON NEW FOOTING. MR. MONTANA MADRIZ TOLD FEDECAMERAS THAT HOLDING COMPANY COULD CONTAIN AUTONOMOUS SUBSIDIARIES WITH AUTHORITY TO CONTRACT TECHNICAL AGREEMENTS AND RAISE THEIR OWN CAPITAL.

3. AT CLOSING SPEECH OF FEDECAMERAS CONVENTION ON MAY 10, PRESIDENT PEREZ CALLED TWENTY YEARS OF NATIONAL PETROCHEMICAL DEVELOPMENT "LOST" BUT SAID NATIONAL AND INTERNATIONAL CIRCUMSTANCES AFFORD VENEZUELA OPPORTUNITY TO EXPLOIT ITS PETROCHEMICAL RESOURCES AT A TIME OF WORLD-WIDE NEED. PLANNING FOR THE INDUSTRY WILL CONTINUE TO BE IN GOVERNMENT HANDS. STRATEGIC AND BASIC PRODUCTS INCLUDING FERTILIZERS AND EXPLOSIVES WILL BE EXCLUSIVELY MANUFACTURED BY STATE COMPANIES. A SECOND GROUP OF PRODUCTS INCLUDING PLASTICS, SYNTHETIC FIBER AND UNSPECIFIED INTERMEDIATE PRODUCTS CAN HAVE MINORITY PRIVATE OWNERSHIP. IN THE THIRD LIMITED OFFICIAL USE

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GROUP OF DERIVATIVE PRODUCTS, THE PRIVATE SECTOR CAN ENJOY "FUNDAMENTAL PARTICIPATION" WITHIN THE STRUCTURES OF THE STATE PLAN AND THE YET-TO-BE-CONCLUDED IMPLEMENTATION OF THE CARTAGENA AGREEMENT.

COMMENT. WHILE EVENTS SUGGEST THAT A MAJOR RATIONALIZATION OF THE PETROCHEMICAL INDUSTRY IS UNDERWAY, THE PRESIDENT'S COMMENTS AND AVAILABLE INFORMATION ON THE NATIONAL COUNCIL'S PLANNING

IMPLY NO RADICAL DEPARTURE FROM THE GOVERNMENT'S DEVELOPMENTAL
PHILOSOPHY. IF REFORMS PROVE TO BE COSMETIC, AFFECTING ONLY
PERSONNEL AND COMPANY ORGANIZATION, THE INDUSTRY'S DISMAL
PERFORMANCE WILL BE PERPETUATED.
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